

CONSULTATIVE GROUP ON INTERNATIONAL AGRICULTURAL RESEARCH

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TO: Participants in International Centers Week
FROM: Executive Secretariat
SUBJECT: Budgeting and Accounting Procedures and Practices
of International Agricultural Research Centers

1. Participants in International Centers Week will recall the consideration by the Consultative Group last year of a paper entitled "Budgeting and Accounting Procedures and Practices of International Agricultural Research Centers." It was remarked that the paper would be revised from time to time in the light of experience.

2. A new draft of the paper has now been prepared. As did the earlier version, it describes the use of funds, the preparation of budget requests, and the accounting for funds by the centers. It has been somewhat expanded from the 1973 draft, but otherwise is not fundamentally revised.

3. The new draft is for discussion as Item 3 in the provisional agenda for the Consultative Group meeting which begins on August 1.

Attachment

BUDGETING AND ACCOUNTING PROCEDURES AND PRACTICES OF
INTERNATIONAL AGRICULTURAL RESEARCH CENTERS

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DRAFT

Budgeting and Accounting Procedures and Practices of
International Agricultural Research Centers

1. This paper describes a common framework of budgeting and accounting procedures and practices for the international agricultural research programs supported by the Consultative Group on International Agricultural Research (CG).
2. The concepts, definitions and report formats proposed in this paper are still evolving. It is desirable that work be continued to refine and extend the statements contained in the paper.

Section I: Definitions and Usage

A. Program

3. A program is defined as a set of organized activities designed to progress toward defined objectives.
4. The core program of a center or institute is a set of long-term activities designed to progress toward the center's fundamental objectives in research and training, as described in a basic statement approved by the center's governing board (which some centers refer to as their "mandate"). The hallmark of the core program, so far as content is concerned, is that it represents the initiative of the center and carries the approval of the governing board. So far as finance is concerned, the core program is funded by several donors (often eight or more).
5. The core program need not be confined to the headquarters of an institute. A core program may be carried on away from headquarters and even outside the host country, by an institute's own staff, by contract with another research organization or laboratory, or by other cooperative arrangements with national or regional institutes (sometimes called linkages, although this term seems to be obsolescent).
6. A core program may consist of a number of different activities aimed at different research questions or action targets. These activities may be referred to as programs or program elements; centers sometimes call them "thrusts." A multiple-crop center, for instance, is considered to have a program for each crop (or group of related crops) with which its activities are concerned (e.g., the Grain Legumes Improvement Program of IITA).

B. Special Projects

7. Special projects usually are highly specific in purpose and limited to a definite span of time. They are often financed by a single donor, and may or may not be continued or renewed when the donor's support comes to an end.

8. In contrast to the content of a core program, the content of a special project is often stipulated by the donor and/or by the client. The project usually consists, basically, of making practical use of a center's research results or its expert staff in a single country (which may or may not be the center's host country).

9. A large class of special projects is composed of outreach programs. These typically are programs of technical assistance by the personnel of an international institute to research or extension efforts in a developing country, carried out under a contract with the recipient country and financed by that country with the help of an outside donor or donors. Examples include IRRI outreach projects in Bangladesh and India, and CIMMYT's assistance to wheat programs in countries of northern Africa.

10. Another class of special projects is composed of training exercises, carried out for the benefit of trainees from a particular country or region, and financed by a donor particularly interested in that country or region. Examples are some of the training exercises carried out by CIAT with the financial support of the Inter-American Development Bank.

11. Special-project funding also is used for other purposes, for instance:

a. Urgent projects to solve an urgent problem which an international center is particularly qualified to handle and which presumably can be solved in a short time (e.g. IITA's program on bacterial blight in cassava).

b. Pilot activities in which an untried concept needs to be tested before its larger application or wider funding can be proposed (e.g. IRRI's machinery-development program).

c. Short-term holding operations, pending the permanent assignment of a research problem to the international center which will have the long-term responsibility for it (i.e., sorghum research at CIMMYT which will eventually pass to ICRISAT).

12. The funds for special projects are not included in the allocations made within the framework of the Consultative Group. It often is not possible to understand the budget of a center, however, without knowledge of special project activities, and these should be adequately described in the budget presentations of the centers.

C. Capital Expenditures and the Capital Development Plan

13. The research institutes classify as capital those tangible assets which are not consumed in current operations: for instance, buildings, land, vehicles, equipment and furniture. In instances where it is desirable to buy a substantial part of imported items of supply in advance of actual use, a base stock inventory is established and is treated as a capital requirement.

14. Replacement of capital assets and nominal additions to them (for instance, vehicle replacements and additional library books), however, are not classed as capital items. They are considered to be running expenses and are charged to the core budget.

15. It has been a common practice for the established research centers to devote as much as 10-12 per cent of their combined core and capital budget to capital expenditures. Some institutes, however, have much larger requirements, since in their present state of evolution, many of them have yet to complete their basic physical facilities of land, buildings and equipment.

16. The plan for the creation of a center's basic physical facilities should be described in a plan or program for capital development, approved by the Board of Trustees and presented to potential donors of the Consultative Group in advance of commitments for construction or large purchases of equipment.

17. The capital development plan includes the cost of acquiring land, of construction, of equipment and furnishings, of developing land for cultivation, and of services and fees associated with these items, including fees for architects and consultants. Expenditures for the plan usually extend over a period of years and should be programmed year by year.

18. Capital expenditures obviously are of central importance to the planning and budgeting of an institute, since the capacity of the institute's facilities will have an important influence on the level of operations and running costs. These expenditures may also provide an element of flexibility in an institute's financial commitments and cash flow, since (unlike the recurring expenditures of the core program) they may be speeded up or slowed down according to the availability of funds.

19. Apart from the financing of capital purchases, most centers have or are creating funds for working capital. They are used to cover core or capital (but not special project) expenditures when cash transfers from donors lag behind commitments; and they are replenished to their original level when donor commitments are fulfilled. The Consultative Group has accepted that center budget proposals may include provision for working capital equal to 40 days' average cash requirements for core expenditures and acquisition of capital items. For the purpose of calculating the amount of working capital needed, cash requirements are not considered to include funds whose flow is assured (e.g., capital grants, mentioned in paragraph 23(d) below).

20. In some circumstances (e.g., when a building program is completed), the need for working capital may decline. In such a case, the superfluous part of the fund should be transferred to income and used for the approved core and capital program.

D. Funding and the Use of Funds

21. The resources for the work of a center are provided partly in the form of grants or contracts made by donors and partly from the income of the

center itself. They are applied to purposes (core, capital, special projects or other) approved in detail by the center Trustees for a specific year and (apart from special projects) accepted by the Consultative Group for that year.

22. When an unforeseen change of funding leads a center and its Board of Trustees to desire a substantial change in its distribution of expenditures in a year for which grants already have been approved, the center will ask for the concurrence of the Chairman of the Consultative Group. In considering concurrence, the Chairman will consult donors concerned and also, if necessary, the Chairman of the Group's Technical Advisory Committee.

23. Grants are made by donors on various terms:

(a) Some donors simply make funds available for a center within a given budget year (which for all centers is the same as the calendar year), without a particular specification of purposes for which the funds may be used. Such funds, however, usually are meant for core programs, and a center wanting to use them for any other purpose should obtain the permission of the donor.

(b) Most donors indicate that their funds may be used both for core operations and capital expenditures; and they are satisfied to let the center decide the distribution between the two.

(c) Some donors limit their funds to use in the core program of a center. If their assistance is available, at the center's discretion, for any part of the core program, such funds are customarily referred to as "unrestricted core" or "core unrestricted" grants. In other cases, funds are made available to apply to or to offset costs of, elements of the core program specified by the donor; and funds of this kind are customarily referred to as "restricted core" or "core restricted" grants.

(d) Grants limited to capital expenditures are rare, but sometimes occur, especially for the purpose of financing a capital development plan. Some donors must follow special and rather difficult procedures in order to make grants for the costs of construction, and some prefer to avoid grants of this sort altogether.

(e) Special projects are not presented to the Consultative Group for funding. Funds for this purpose are likely to be offered by, or solicited from, an individual donor interested in the type of project in question. Grants for special projects nevertheless have a relationship to the financing of a center's other activities; they should not only be adequate to pay the direct costs of the project, but should include amounts sufficient to compensate the center for any burden put on its general services and staff.

24. Grants made for a specified purpose may not be used for another purpose. For example, grants made for core operations may not be used for the capital development plan, and vice versa; nor may core and capital grants be used for special projects.

25. Apart from funds directly provided by donors, centers have other income, referred to variously as "earned income" or "special income." Earned income results from the incidental sale of animals, crops and assets, from interest earned on cash balances; and from recovery from special-project grants of a fair share of general operating costs attributable to such projects.

26. Such income is intended for use in the year in which it is earned. It may be used anywhere within the approved core or capital program (but not for special projects) of a center. It reduces by the amount of the income the amount of funding requested from donors for the year in question.

27. Centers also have income from special projects which is intended to offset core expenditures occasioned by such projects (paragraph 22(e) above). This is often referred to as "indirect income," and is treated in the same way as earned income.

28. At the end of a year, a center may have funds which it has not spent and which it has not committed or obligated for the year's activities. These are to be treated in the same way as earned income in the following year. It should be remembered, however, that some donors are not authorized to permit the carry-over of their grants from one year to the next. The carry-over of funds by a center therefore should not exceed the amount of grants it has free from such limitation unless carry-over of additional funds is specifically negotiated with as many donors as may be necessary to make up the total amount of the carry-over. The Secretariat of the Consultative Group is prepared to lend its good offices for such negotiations.

E. Classification of Expenditures

29. To make the annual budgets of international agricultural research institutes comparable with each other and more easily evaluated by donors, recurring expenditures are assigned by the centers to more or less standard program and activity headings. The following are commonly used:

(a) Research. This category shows the cost of study and investigation aimed at the improvement of crops, animals or agricultural systems. Separate totals are shown for each program element or thrust.

(b) Research Support (or Research Services). This item includes activities carried out in direct support of research. It shows totals for the costs of farm (or station) operations, of laboratory services, and of scientific personnel whose time may be divided on an occasional basis among two or more research activities.

(c) Conferences and Training Activities. This category includes the staff, travel, subsistence and other identifiable costs of training programs, conferences, workshops, symposia, seminars and the like. The total for training is shown as an item separate from conferences and similar activities.

(d) Library, Documentation and Information Services. This category shows the annual cost of library services, of the publication of the annual report and of technical bulletins, of translating, of printing and of various public information activities.

(e) General Administration. This item shows totals for the costs of the Board of Trustees, of the office of the Director-General, and of administrative functions such as accounting, personnel administration, and procurement.

(f) General Operations. This category shows the costs of operating and maintaining the physical plant (such as the costs of buildings and grounds maintenance, the motor pool, utilities, telecommunications, office rent, insurance, security guards and the like).

(g) Other. If money is to be allocated to a contingency fund, it is shown under this heading. In projections of expenditures in future years, allowance for price rises is shown here.

1. One center (CIMMYT) shows its headquarters expenditures for special projects here. In other cases, these costs may be shown under General Administration (especially when the Director-General's office includes staff concerned with the development and supervision of outreach programs). No standard treatment of core costs attributable to outreach activities yet exists.

30. In addition, core expenditures are classified not only by individual programs and activities, but also by the kinds of services or materials paid for. These objects of expenditure include personal services, vehicle costs, staff travel and so on.

31. Capital allocations also are shown as a class of expenditure. A distinction is made between actual expenditures, on the one hand, and appropriations to working capital funds (paragraph 19 above) on the other.

F. Staffing

32. The research centers classify staff as well as expenditures, as a help to analysis of activities within a center and within the Consultative Group system as a whole.

33. Staff nomenclature varies among institutes. In general, however, the centers divide staff into three or four broad categories: (a) senior (or principal) staff, sometimes referred to as "international staff"; (b) technical and supervisory staff (often referred to simply as support staff); (c) clerical staff; and (d) other support staff. Categories (c) and (d) often are combined and, in at least one center, are referred to simply as general staff. All categories, however, refer to permanent staff, and not to seasonal or occasional employees.

34. In most cases, numbers of senior (or principal) staff are a major determinant of expenditures. They tend to influence the number of support staff required and the requirements for equipment and other facilities. Ratios of senior to other staff, however, obviously cannot be expected to be uniform among centers.

35. In most cases, the best indicators of the type of staff contained within each classification are (a) the functions performed (e.g. research team leader), (b) the method of recruitment (i.e., whether confined to the host country or extended to other countries as well), (c) qualifications (educational degrees and employment experience) and (d) level of salary paid.

36. The following lists of titles give an indication of how staff tends to be classified at the research centers. Some titles appear in more than one category, since the actual level of the posts designated by them may vary from one center to another:

Senior Staff

Director
Senior Scientist
Associate Scientist
Engineer
Controller
Treasurer
Executive Officer
Visiting Scientist
Statistician
Librarian
Economist
Editor

(Technical and Supervisory) Support Staff

Research Assistant
Research Associate
Laboratory Assistant
Laboratory Technician

Farm Manager
Post Graduates
Statistician
Statistical Assistant
Librarian
Editor
Accountant
Administrator
Supervisor

Clerical Staff

Secretary
Clerk
Accountant
Administrative Assistant

Other Support Staff

Technician
Mechanic
Driver
Laborer
Guard
Messenger
Cleaner.

Section II: Programming, Budgeting and Review

37. The members of the Consultative Group and its Technical Advisory Committee meet periodically during the year for the purpose of formulating positions on research and training programs and providing finance for them. Within the annual cycle of meetings, the research institutes are responsible for providing three documents which serve (a) to set out their financial position, (b) describe their scientific programs and findings, and (c) present their proposals for future activities and expenditures.^{1/}

38. The Center's financial position is shown in an annual report prepared by an independent auditor. The report contains a certified balance sheet showing the position of a Center at the end of its program year. Including the value of fixed assets, cash holdings and liabilities outstanding. The report also indicates what funds were received by the Center for what purposes, indicates how they were applied, and analyzes the year's expenditures as nearly as possible in terms of the kind of expenditure classification suggested in Section I:E of this paper.

^{1/} Subcommittee on Center Review Procedures, Report, Nov. 20, 1973.

39. Tables illustrating the presentation of these data are given in an appendix to Annex 2 of this paper. The Balance Sheet is discussed more fully in Annex 2: "Practices and Procedures Used in Accounting for Assets, Liabilities, Capital Balances and Unexpended Funds."

40. The auditor's report should be completed by March 1, and should be in the hands of the Consultative Group soon thereafter.

41. Centers commonly distributed scientific and technical information in periodic bulletins, newsletters and occasional publications. The chief single source of scientific and technical information, and the most authoritative one, is expected to be the center's Annual Report. The Report may also, of course, contain other kinds of information, such as a description of training activities, a narrative of administrative developments, and the annual balance sheet.

42. The Report, or at least those parts of it dealing with research and training, should be in the hands of the members of the Consultative Group by July 1 following the end of the program year with which it is concerned.

43. The auditor's report and the Annual Report are concerned with the year that has just passed. The Center also prepares a program and budget proposal to the Consultative Group which describes what the Center proposes to do in the year which has yet to begin.

44. The annual program and budget document is the Center's request to the Consultative Group for financing; it is written to be understood by persons who are not themselves agricultural research scientists. The document describes the work to be undertaken in the following year, as approved by the Board of Trustees. It sets out the objectives of the program and its constituent elements, particularly explains the justification for additions to the program level of the preceding year, and estimates the cost of the program and its elements in manpower and finance.

45. The document also projects annual costs for three years beyond the program year with which it is concerned. These projections may, or may not, be approved by the Trustees. They are presented for the information of, rather than acceptance by, the Consultative Group.

46. The document consists both of a textual narrative and of an appendix of standard budget tables. Other appendices are supplied when the Center desires to give special explanations of new programs or capital additions.

47. Each Center is free to adapt its narrative to suit its own character and special needs. In 1974, however, most of the established centers are following an outline somewhat as follows:

(a) The narrative opens with a brief statement of the objectives of the center or institute. The statement describes the importance of the crop or the research questions with which it is dealing, in terms, if possible, of areas of the world and numbers of people potentially affected.

(b) The second section of the narrative briefly states the amount of funds requested for the center's core and capital programs in the program year, and compares it to the funds budgeted for the previous year. The differences between the figures are analyzed; increases due to inflation are distinguished from increases due to growth in staff and program. Implications of these increases which extend beyond the program year may be briefly mentioned.

(c) A third section may deal with particularly notable advances and achievements of the Center since the previous annual program and budget document.

(d) A fourth section, at the option of the institute, deals with issues which the management and trustees wish to report to, or raise with, the Consultative Group or its Technical Advisory Committee.

(e) Then follow a number of individual sections, each dealing with one of the important and distinguishable elements of the center program, somewhat as set out in paragraph 29 above, including research, training, administration, and capital expenditures.

(f) Each section justifies or explains increases over or changes from activity of the same kind in the preceding year. In the case of each activity, the number of man-years of senior and support staff engaged in the activity is stated, and a cost figure is given for the year.

(g) In the case of the research elements of the program, each section explains the objectives and techniques of the research involved, and gives whatever indication is possible of the time horizon toward which the program is working.

(h) If the outreach activities or other special projects have any major effects on the core or capital budget, these are explained in a separate section.

(i) Finally, the paper includes a section on capital expenditures intended during the year. Whenever possible, these expenditures are justified by being directly related to program elements, as in the case of a need for additional equipment to help carry out an expanded program of work.

48. The narrative section is followed by a set of five standard budget tables. In combination, they show a center's recent history of expenditures, set out requirements for the coming budget year, and project the cost of the center's activities over an additional three-year period.

49. The tables are: (I) A Summary of Costs by Major Program or Activity; (II) A Summary of Man-Years and Costs by Organizational Unit; (III) A Summary of Sources and Applications of Funds; (IV) A Summary of Financial Data (giving essential information from the balance sheet and adding certain other information concerning sources and uses of funds); and (V) A Summary of Personnel Positions and Man-Years by Major Program or Activity.

50. Further explanations of these tables, together with illustrative formats, are given in Annex 1 of this paper.

51. Each center is asked to provide a draft of its program and budget paper to the Executive Secretariat of the Consultative Group by March 31. This intended to serve two purposes. It will enable the Secretariat to make comments on the presentation in time for them to be taken into account in the drafts prepared by center managements for final consideration by Boards of Trustees. It will also enable the Secretariat to give early notice to the Chairman and Secretariat of the Technical Advisory Committee of the Consultative Group about any points that may need special consideration by TAC before the Committee's summer meeting, usually held in July.

52. Final texts, as approved by Boards of Trustees, should be transmitted by the centers and institutes to members of the Consultative Group as soon as possible after Board action, and in any case not later than July 1. The latter date gives donor organizations a month to study the documents before International Centers Week convenes (usually at the end of July or the beginning of August) and donors make their preliminary and informal statements of intentions concerning financial support for the centers. The earlier the transmission to donors the better, since some donor offices already are beginning in June to consult their technical advisors about the merits of center programs.

53. Donors make their definitive statements of intentions concerning their financial support of research programs at a meeting of the Consultative Group which occurs at the end of October or the beginning of November. Thereafter (often in February or March), Trustees of the centers not uncommonly meet to make adjustments to the budget that may be necessary to bring expenditures within the scope of funds provided by donors or to reflect important developments that have occurred since the budget was approved. A copy of the revised budget should be sent to the Consultative Group Secretariat for information.

STANDARD BUDGET TABLES

The standard budget tables appended to the narrative section of the annual program and budget document of a center are as follows:

Table I: Summary of Costs by Major Program or Activity - see format page 2 of this annex. This table shows the total cost of the center's operation broken down by major "programs" or functional headings. It also shows the principal elements of each program.

Table II: Summary of Man-years and Costs by Organizational Unit - see format page 3. The first section of this table shows man-years (principal and support staff) and costs for program units, and support units according to the center's organizational structure. General operating costs are also shown to balance the table with the totals shown in Table I. The second section of this table shows expenditures by major expense category (i.e. personal services costs, consultants, travel, etc.).

Table III: Summary of Sources and Application of Funds - see sample format page 4. The first section of this table shows actual and projected funds for core and special projects and breaks down funds by type of grant and major donor.

The terminology used in this table is defined in Section I of this paper. The application of funds section of the table shows the uses of funds for core operations, special projects, capital expenditures and unexpended balances. In cases where funds provided in one category do not equal expenditures for that category, and the difference is not accounted for by unexpended balances, a footnote should be provided which explains the difference.

Table IV: Summary of Financial Data - see format on page 5. This table shows the basic financial characteristics of the center expressed in normal balance sheet terms (i.e. current assets, fixed assets, liabilities and unexpended operating and capital balances). It also shows, in highly summarized form, sources and uses of funds and staffing for core and special projects. Its purpose is to set out on one page the center's main financial characteristics.

Table V: Positions and Man-years - see format on page 6. This table provides the number of authorized positions and manyears according to the past year's actual results, the latest estimate for the current year, and the budget projections for the next year. Positions and manyears are shown by organizational unit and staff category.

Table 1

Annex 1

1975 BUDGET
SUMMARY OF COSTS BY PROGRAM AND ACTIVITY 1971-1978
(US\$ Thousands)

Major Activities	Actual			Core Estimated & Budget			Projected		
	1971	1972	1973	Est. Exp. 1974	Budget ^{a/} 1974	Budget 1975	1976	1977	1978
1. <u>Research</u>									
Beef									
Swine									
Rice									
Corn									
Potato									
Food Legumes									
Tropical Root Crops									
Agric. Systems									
etc.									
Total									
2. <u>Conferences & Training</u>									
Fellowships									
Workshops									
Conferences									
Symposia									
etc.									
Total									
3. <u>Library, Documentation & Information Services</u>									
Library									
Documentation									
Information									
Total									
4. <u>Research Support</u>									
Service Activities:									
Common Lab. Services									
Station Operations									
Tractor & Equip. Pool									
etc.									
Total									
5. <u>General Administration</u>									
Board of Trustees									
Office of Director General									
Accounting									
Purchasing									
Personnel									
Other									
etc.									
Total									
6. <u>General Operating Costs</u>									
Buildings & Grounds									
Motor Pool									
Communications									
Office Occupancy									
General Supplies									
etc.									
Total									
7. <u>All Other</u>									
Contingency									
Provision for Future									
Price Changes									
TOTAL CORE									
TOTAL SPECIAL PROJECTS ^{b/}									

a/ Show revised 1974 budget based on final allocation approved by the Consultative Group.
b/ Attach a schedule itemizing all special projects for the budget year.

1975 BUDGET
SUMMARY OF MANYEARS AND COSTS BY ORGANIZATIONAL UNIT - 1971-1978
(US\$ Thousands)

	Actual						Est. & Budget						Projected					
	1971		1972		1973		1974 Est.		1974 Bud. ^{b/}		1975		1976		1977		1978	
	MY	Cost	MY	Cost	MY	Cost	MY	Cost	MY	Cost	MY	Cost	MY	Cost	MY	Cost	MY	Cost
<u>By Organisational Unit</u>																		
1. <u>Program Units</u>																		
Agric. Economic																		
Agric. Engineering																		
Agric. Production Systems																		
Animal Sciences																		
Plant Sciences																		
Library																		
Training																		
Total Operating																		
2. <u>Research Support Units</u>																		
<u>Service Operations:</u>																		
Common Lab. Services																		
Station Operations																		
Tractor & Equip. Pool																		
Labor Pool																		
etc.																		
Total																		
3. <u>General Administration</u>																		
Board of Trustees																		
Office of Director General																		
Accounting																		
Purchasing																		
Personnel																		
Other																		
etc.																		
Total																		
4. <u>General Operations</u>																		
Buildings & Grounds																		
Motor Pool																		
Communications																		
Office Occupancy																		
General Supplies																		
etc.																		
Total																		
Contingency																		
Provision for Future Price Changes																		
TOTAL CORE																		
<u>By Object of Expenditure</u>																		
Personal Services Costs																		
Consultants																		
Supplies																		
Equipment																		
Travel																		
Vehicle, Machinery & Transp.																		
Other																		
etc.																		
Total																		
Provision for Future Price Changes																		
TOTAL CORE BUDGET																		

^{a/} Include only manyears of senior staff.

^{b/} Show revised 1974 budget based on final allocations approved by the Consultative Group.

1975 BUDGET
SUMMARY FINANCIAL DATA - 1971-1975
(US\$ Thousands)

Table IV

Annex 1

	<u>1971</u>	<u>1972</u>	<u>1973</u>	Est. <u>1974</u>	<u>Budget</u>	
					<u>1974</u>	<u>1975</u>
<u>Current Assets</u>						
Cash						
Receivables						
Other Receivables						
Inventories						
Prepaid Expenses						
Other Current Assets						
Total Current Assets						
<u>Fixed Assets</u>						
Revolving Fund Balances						
Operating Equipment						
Research Equipment						
Vehicles						
Furnishings & Office Equip.						
Buildings						
Land						
Other Fixed Assets						
Total Fixed Assets						
TOTAL ASSETS						
<u>Liabilities</u>						
Accounts Payable						
Payables to Donors						
Other Liabilities						
Total Liabilities						
<u>Capital Balances & Unexpended Funds</u>						
Capital Grants:						
- Fully Expended						
- Unexpended						
Sub-Total						
Unexpended Operating Grants:						
- Core						
- Special Projects						
Sub-Total						
Total Capital Balances						
TOTAL LIABILITIES AND CAPITAL						
<u>Sources of Funds</u>						
Core						
Capital Funds						
Special Projects						
Earned Income						
Total						
<u>Application of Funds</u>						
Core Operations						
Capital Expenditure						
Special Projects						
Total						
UNEXPENDED BALANCES						
<u>Memo Items</u>						
Many years of Staff:						
- Core Program						
- Special Projects						
Total						

1975 BUDGET
TABLE OF POSITIONS AND MANPOWER

Table V

Annex 1

Senior Staff						Scientific and Supervisory						Support Staff						Other Support Staff					
Positions			Man-years			Positions			Man-years			Positions			Man-years			Positions			Man-years		
Act.	Est.	Bud.	Act.	Est.	Bud.	Act.	Est.	Bud.	Act.	Est.	Bud.	Act.	Est.	Bud.	Act.	Est.	Bud.	Act.	Est.	Bud.	Act.	Est.	Bud.
1973	1974	1975	1973	1974	1975	1973	1974	1975	1973	1974	1975	1973	1974	1975	1973	1974	1975	1973	1974	1975	1973	1974	1975

Organizational Units

Research Depts. or Teams

Research Support

Conference and Training

Library, Documentation & Info.

General Administration

General Operations

Total

Practices and Procedures Used in
Accounting for Assets, Liabilities,
Capital Balances and Unexpended Funds

Accounting Procedures

1. In general, accounting procedures for agricultural research centers are designed to provide effective expenditure control and to: (a) measure resources held; (b) reflect claims on and interest in those resources; (c) measure changes in resources over time; and (d) measure the application of resources for approved programs.

2. This annex sets out the procedures currently used by centers in accounting for assets, liabilities, capital (a & b above) and in accounting for the sources and uses of funds (c & d above).

Accounting for Assets

3. Assets are broken down into two categories - current and fixed assets. Current assets are those which, in the normal course of operations, can be readily used or quickly converted to meet current operating or capital requirements. These include cash, accounts receivable from donors and others, inventory and prepaid expenses. All remaining assets are fixed and cannot under normal circumstances be used or converted to meet current operating requirements. These include the physical plant, various tangible capital assets, land and other assets representing relatively long-term investments.

Current Assets

(a) Cash

- (i) Definition - Cash is defined as actual money or instruments which are generally accepted as money and available for ordinary operating or capital needs.
- (ii) Procedure - To operate effectively centers must maintain a liquidity position consistent with normal cash flow requirements. The appropriate level of liquidity will vary from center to center, and from year to year for a given center, depending upon the disbursement pattern for a particular set of grants. Since actual cash transfers from donors frequently lag substantially behind commitments, and often do not take place until a center is well into its operating year, the Consultative Group has accepted the principal that centers should include in their budgets provision for working capital equal to 40 days average operating cash requirements.

- (iii) Valuation - All cash balances held in non-US currency should be shown on the balance sheet in US dollars converted at the year-end exchange rate. Gains and losses on currency conversion should be accounted for as an adjustment to other income.

(b) Accounts Receivable (Donors and Others)

- (i) Definition - Accounts receivable from donors represent the amount pledged in support of the center's approved program of operations. Other receivables cover advances to staff and/or amounts due centers from miscellaneous sales.
- (ii) Procedure - Receivables from donors are recorded at the time financial commitments are made (after January 1 of each year) and drawn down as cash payments are received. The audited financial statements should show any amounts due from donors at year-end for commitments made for that year and explain any outstanding balances. In addition, the audited financial statements should include a schedule showing payment dates on all grants. The purpose of this procedure is to identify the sources of cash flow problems. Advances to staff should be identified separately from other types of receivables on the audited financial statements.
- (iii) Valuation - All receivables should be shown on the balance sheet at net realizable value.

(c) Inventories

- (i) Definition - Supplies or other items not expended at the time of purchase, such as scientific supplies, automotive parts, office equipment, and general supplies.
- (ii) Procedure - Where a center finds it necessary to purchase a substantial portion of its supplies well in advance of actual use, a base stock inventory should be established and funded by a capital grant or through an allocation of retained earnings.

In those categories of supply where the majority of stock items can be procured locally or imported without difficulty, capitalization of base stock should not be necessary. Current usage of supplies and materials should, of course, be charged against operations.

- (iii) Valuation - Regardless of which method of accounting is used for stock items, a physical inventory of supplies should be taken at year-end and included in the balance sheet under current assets. Outstanding purchase orders at year-end for items which can be identified with specific programs, and which are expenses of the year, should be treated as a current expense of the specific programs involved, rather than as year-end inventory.

(d) Prepaid Expenses

- (i) Definition - an expenditure, often recurrent, for benefits to be received in a future period. For example, prepaid rentals, insurance premiums, etc.;
- (ii) Procedure - For material amounts, centers should accrue prepayments; and
- (iii) Valuation - The balance sheet should show prepaid items at the estimated value of benefits to be received.

(e) Other Current Assets

Items which fall within the definition of current assets not specifically covered above should be classified in the balance sheet under this general heading. The balance sheet should show these assets at cost or net realizable value, whichever is lower.

Fixed Assets

(a) General

- (i) Definition - All tangible assets acquired through a capital grant.
- (ii) Procedure - Initial acquisitions purchased through a capital grant are treated as fixed assets. Individual assets over \$300.00 should be inventoried and controlled by tagging and by appropriate detailed records, combined with a periodic physical check. Items purchased from capital grants costing less than \$300.00 should be capitalized under the category, "All Other Fixed Assets".

Asset replacements and nominal additions (e.g. vehicle replacements; additional library books, kitchenware additions, etc.) should be treated as a current operating expense. The following breakdown

of fixed assets should be shown on the audited financial statements: Revolving Funds, Operating Equipment (other than vehicles), Research Equipment, Vehicles, Furnishings, Buildings, Land, and all Other Fixed Assets.

- (iii) Valuation - The basis for valuing fixed assets should be cost. If the center wishes to show the approximate book value of assets currently held, it should apply its own schedule of depreciation and indicate the depreciated value in a footnote to the balance sheet.

(b) Revolving Funds

- (i) Definition - A fund established out of retained earnings or by a capital grant for a self-sustaining activity, from which monies are continuously expended and which is replenished through a service fee or other income.
- (ii) Procedure - Auxiliary activities such as staff housing, guest housing, training dormitories, dining room, cafeteria operations, and laundry services are established as self-sustaining operations and funded through retained earnings or one-time capital grants. Enabling grants should provide for the physical assets required and an appropriate element of working capital. Revenues to cover ongoing operational costs should be generated through appropriate service fees.
- (iii) Valuation - The audited balance sheet should show the current value of all revolving funds and in addition show in an attached schedule any depletions or additions to the original capital grants.

Accounting for Liabilities

There are two aspects of liability accounting which require comment: the treatment of outstanding purchase orders at year-end (operating commitments) and payables to donors or sponsors.

- (a) Operating commitments - At year-end, centers will have a number of outstanding commitments for items purchased but not received. In order to have a fairly simple and clear-cut rule for handling outstanding commitments, it is proposed that purchase orders dated prior to December 15 be treated as current costs and shown on the balance sheet as accounts payable. Purchase orders dated after December 15 should not be accrued as expenses for the current year.

(b) Payables to donors and sponsors - in cases where donors require reimbursement of unexpended grant balances, the amounts to be reimbursed should be determined and transferred to the liability account at year-end. This liability may result in an actual cash disbursement, in cases where donors are not authorized to permit the carry over of their grants, or they may be eliminated as an offset or "pre-payment" on a new grant.

Capital and Unexpended Balances

The operating resources and assets held by a center are financed in the form of operating grants or contracts and capital grants. Operating grants provide funds to meet the cost of current operations and are used to carry out approved programs. Capital grants are made to enable a center to acquire or expand its basic plant, or other physical assets, to provide base stock inventory levels, to provide working capital, or to establish revolving funds for auxiliary enterprises. In accounting for grants the following practices are in use:

(a) recording the initial grant - at the time firm commitments are made by donors and sponsors a center should record a "Receivable from Donors" on its books. A corresponding entry should be made to an appropriate grant account (e.g. operating grant - core, capital grant - buildings, Capital Grant - Revolving Funds - dormitories, etc.).

(b) receipt of grants - when cash payments are received from donors, an entry should be made to reduce the "Receivable from Donor" account.

(c) disbursements - expenditures for capital items should result in a decrease in cash and an increase in fixed assets. Operational expenditures should be charged at the time of disbursements to various programs, support activity, indirect costs or special projects.

(d) closing entries -

(i) capital grants - annual expenditures for capital items, as measured by the increase in various categories of fixed assets, should be compared with the enabling capital grants. The difference between an increase in a specific fixed asset and the capital grants provided for this asset should be transferred to an unexpended capital grant account at year-end.

(ii) operating grant: core - expenditure accounts established to measure the uses of resources for core operations should be closed at year-end to an appropriate "Operating Grant: Core" account. In cases where total expenses for core operations plus any increase in current assets are less than the operating core grants, amounts to be reimbursed to donors should

be determined and transferred to the liability account, "Payable to Donors and Sponsors". Any balance remaining in the core operating account after this adjusting entry is made should be closed to an unexpended operating grant account.

Accounting for Sources and Uses of Funds

In accounting for sources and uses of funds the objective is to properly and accurately associate various costs with programs, organizational units and specific grants. Given the rather elaborate mosaic of grants and the differing types of financial commitments made to centers the problem of properly associating costs with programs and grants could be inherently complicated unless standard practices are adopted. The following few relatively simple rules and concepts have been adopted to avoid the more difficult aspects of this accounting problem.

Rules for Assigning Costs

At the time disbursements are made, costs are classified by objects of expenditure (personal services costs, travel, supplies, etc.) and charged either to special projects or to an organizational unit (program departments, support departments), or to a general overhead account, (utilities, general, supplies, communications, etc.). The classification of cost at the time of disbursements does not, of course, satisfy all of the centers' costing requirements. For example, it does not enable the center to measure the cost of a specific program or a program element, nor does it assign all costs to specific grants or contracts.

In order to measure the total cost of the program or program element on a consistent basis, centers should first allocate general operating costs to organizational units using as a basis of allocation the ratio of each organizational unit's regular salaries to the total cost of regular salaries for all departments, and then distribute total support department costs to programs and program elements using the ratio of each program's salary costs to the salary costs for all programs.

In assigning costs to specific grants or contracts, centers generally use the following procedures:

- (i) Special projects - individual accounts are maintained for each special project and costs directly associated with the contract are assigned to the account at the time a disbursement is made. Indirect costs for both general and specific support of special projects is "assigned" in the form of an overhead rate which when charged is accounted for as earned income.
- (ii) Restricted Core grants - are made to provide support or offset the cost of elements of the Core program as specified by the donor. Costs are associated with a restricted grant on the basis of the procedure for costing a program element as described in the paragraph above. That is, the restricted grant is charged for the direct cost of a program element plus a fair share of general operating and support department costs. Unrestricted core grants - provide for the general support of the centers core program and accordingly absorb, pro rata, all operating costs not specifically charged to restricted grants or special projects.

Appendices

1. Balance Sheet Format
2. Format of Audited Statement
of Sources and Application of Funds

BALANCE SHEET
December 31, 1975
(US\$000)

	<u>1971</u>	<u>Actual</u> <u>1972</u>	<u>1973</u>	<u>Est.</u> <u>1974</u>	<u>Budget</u> <u>1975</u>
<u>Current Assets</u>					
Cash					
Receivables from Donors <u>1/</u>					
Other Receivables <u>2/</u>					
Inventories					
Prepaid Expenses					
Other Current Assets					
Total Current Assets					
<u>Fixed Assets</u>					
Revolving Fund Balances <u>3/</u>					
Operating Equipment					
Research Equipment					
Vehicles					
Furnishings & Office Equipment					
Buildings					
Land					
Other Fixed Assets					
Total Fixed Assets					
 TOTAL ASSETS					
<u>Liabilities</u>					
Accounts Payable					
Payable to Donors					
Other Liabilities					
Total Liabilities					
<u>Capital Balances & Unexpended Funds</u>					
Capital Grants:					
Fully Expended					
Unexpended					
Sub-Total					
Unexpended Operating Grants:					
Core					
Special Projects					
Sub-Total					
Total Capital Balances					
 TOTAL LIABILITIES AND CAPITAL					

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- 1/ Provide a schedule of donor payments and note reasons for outstanding balances.
2/ Of which XXX represents advances to employees.
3/ Attach a schedule listing individual revolving funds and show how increase in carrying value has been financed.

STATEMENT OF SOURCES AND APPLICATION OF FUNDS
For the Year Ending December 31, 1975
 (US\$ Thousands)

	<u>1971</u>	<u>Actual</u> <u>1972</u>	<u>1973</u>	<u>Est.</u> <u>1974</u>	<u>Budget</u> <u>1975</u>
<u>Sources of Funds</u>					
1. Operating Grants - Core <u>1/</u>					
(a) Unrestricted					
(b) Restricted					
Total Core					
2. Special Projects <u>1/</u>					
3. Earned Income <u>2/</u>					
4. Capital Grants					
Total Funds					
<u>Application of Funds</u>					
1. To Core Programs <u>3/</u>					
(a) Research					
Beef					
Swine					
Rice					
etc.					
Sub-Total					
(b) Research Support					
(c) Conferences & Training					
(d) Library, Documentation &					
Information Services					
(e) General Administration					
(f) General Operating Costs					
Total Core Program Costs					
2. To Special Projects					
Total Operating Costs					
3. To Capital					
Capital Expenditures:					
(a) Revolving Funds					
(b) Working Capital					
(c) Other					
Total Capital					
4. Unexpended Balances					
(a) Unrestricted Funds					
(b) Restricted Funds					
(c) Capital Grants					
(d) Special Projects					
Total Unexpended Balances					

TOTAL APPLICATION OF FUNDS

Memorandum Section

Program Department Costs
 Support Department Costs
 General Operating Costs
 Total Operating Costs

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- 1/ Attach schedule 1 to show funds provided and costs by individual donor.
 2/ Attach schedule 2 to show source and use of earned income for the current year.
 3/ Attach schedule 3 to show the current year breakdown between core unrestricted, core restricted and special projects.

[illegible]

Schedule 2: DETAILED SCHEDULE OF EARNED INCOME
FOR THE YEAR ENDED DECEMBER 31, 1975
(US\$ Thousands)

	<u>Approved Budget</u>	<u>Actual</u>
<u>Sources of Earned Income</u>		
Interest on Deposits		
Sale of Crops		
Sale of Assets		
Indirect Costs charged on Special Projects		
etc.		
Total		
<u>Application of Earned Income</u>		
Applied to Core Operations		
Applied to Capital		
Total		

Schedule 3. COMPARATIVE STATEMENT OF ACTUAL EXPENSES
AND APPROVED BUDGET FOR THE YEAR ENDED DECEMBER 31, 1975
(US\$ Thousands)

	Core		Core		Special		Capital	
	Unrestricted		Restricted		Projects			
	Approved		Approved		Approved		Approved	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
<u>Programs</u>								
Research:								
Beef								
Swine								
Rice								
etc.								
Research Support								
Conferences & Training								
Library, Documentation								
& Info. Services								
General Administration								
General Operating								
Total								
<u>Capital</u>								
Revolving Funds								
Plant								
etc.								
Total								
<u>Analysis of Variances</u>								
Budget Surpluses:								
Transfer to Payable Donors								
Transfer to Unexpended Balance								
Transfer to Revolving Fund								
Transfer to Current Assets								
Total								
Deficits:								
Covered by Unbudgeted								
Additional Income								
Total								